Report Summary

Report on the Revenue Neutral Rate and Structure of Rates for the Goods and Services Tax

- The Committee constituted to recommend tax rates, including a structure of rates, under the proposed GST regime (Chairperson: Dr. Arvind Subramanian) submitted its report to the Ministry of Finance on December 6, 2015.
- **Design of GST**: The Committee noted that it was important to ensure that the design of GST was correct. This implies that the GST should aim at levying rates that protect revenue, simplify tax administration, and encourage compliance.
- **Definitions of RNR and standard rates**: The Committee clarified that the term Revenue Neutral Rate (RNR) refers to that single rate which maintains revenue at current levels. This would differ from the standard rate, which is the rate that would apply to a majority of goods and services.
- **RNR**: The Committee recommended that the range of the RNR be fixed between 15-15.5% (to be levied by the centre and states combined). However, a 15% rate would be preferable.
- **Three rate structures**: The Committee suggested that the standard rate (to be applied to most goods and services) be 17 - 18%. The lower rates (to be applied to certain goods consumed by the poor) should be 12%. Further, the sin or demerit rates (to be applied on luxury cars, aerated beverages, paan masala, and tobacco) should be 40%. The numbers indicate the rates that would be levied by the centre and states combined.
- Further, it noted that the consequences of marginally low rates were preferable to that of marginally high rates. The Committee also suggested that India must aim at levying a single rate in the medium term. This would facilitate tax compliance and administration.
- **Exemptions from GST**: The Committee noted that the standard rate will be higher if several goods are treated differently or exempted. For example, the Committee stated that levying highly concessional tax rates on precious metals will results in the levy of higher rates on essential goods. Further, exempting goods altogether from the levy of GST will break up the value added chain, and result in multiplicity of rates and distortions. Thus, it recommended that the exemption list be narrow and restricted to a few goods that are consumed by the poor (food items).
- The Committee observed that alcohol and real estate must be brought within the scope of the GST in the near future. This would reduce the generation of black money. Further, levying GST on electricity and petroleum would make India more competitive in the manufacturing sector. It also stated that if health and education were brought within the ambit of GST, it would make tax policy consistent with social policy objectives.
- The Committee clarified that the centre can achieve revenue neutrality only if its base is similar to that of the states, which have fewer exemptions. Exemptions must be common across the centre and states. At present, the states exempt 90 products as opposed to the centre which exempts 300 products.
- **1% additional tax**: The Committee stated that the objective of a harmonised national market will be achieved by replacing all taxes on inter-state trade with a single GST. This would include eliminating the 1% additional tax as proposed currently.
- **Compensation**: In the Committee's opinion, moving to a GST regime may not result in large changes in the tax base. As a result, the overall compensation to be provided to states, for revenue losses that they may face, may not be large. However, it noted that providing for a fair and transparent compensation mechanism will reinforce the trust between the centre and states.
- **Evaluation of the working of the GST regime**: The implementation of the GST regime must be examined over a period of one-two years. Based on this, decisions to modify rates, etc. could be taken, if necessary. The centre and states must also ensure that the implementation of GST and tax compliance is facilitated.

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